

**UBS Group AG**

Tom Naratil
President, Americas
CEO, UBS Americas Holdings LLC
Co-President Global Wealth Management
Group Executive Board, UBS Group AG
1285 Avenue of the Americas, 14th Floor
New York, NY 10019

June 25, 2018

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R-1603 and RIN 7100-AF 02

Re: Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules (Docket No. R-1603 and RIN 7100-AF 02)

Dear Ms. Misback:

UBS appreciates the opportunity to comment on the above referenced proposal¹ to establish a stress capital buffer (SCB) framework integrating the current capital plan and stress test rules and existing regulatory capital requirements. UBS has also participated in the preparation of comment letters submitted by The Clearing House Association LLC, Securities Industry and Financial Markets Association and the Financial Services Roundtable and the Institute of International Bankers and broadly supports their comments and recommendations.

We support the Proposal's underlying objective to simplify the capital regime applicable to firms subject to the capital plan rule; however, we believe that further tailoring is warranted for intermediate holding companies (IHC) of foreign banking organizations (FBOs) given the sole shareholder relationship between the IHC and its parent FBO. In addition, we consider the following elements to be critical factors that warrant attention in the Federal Reserve's finalization of the Proposal:

- The necessity of the Proposal's dividend add-on component as applied to IHC's should be re-considered and removed, recognizing that the consistency of capital distributions for an IHC carries different implications than those for publicly held BHCs and the current supervisory assessments applied by the Federal Reserve in evaluating the parent FBO's source of strength capacity relative to US operations of the FBO;
- The Federal Reserve should mitigate the potential unpredictability of the SCB determination process through increased disclosures of supervisory model methodologies and institute a public notice and comment period for stress scenarios; and
- The Federal Reserve should eliminate the qualitative objection recognizing the existing tools available, including the proposed LFI rating framework, to promote sound capital planning processes across supervised firms.

Accounting for the IHC/Parent FBO Relationship

In view of the differences posed by IHCs relative to publicly held BHCs, the Federal Reserve should exempt IHCs from the Proposal's dividend add-on component requirement and align with its recent emphasis on tailoring regulatory requirements. As IHC dividends to the parent FBO are more analogous to the behavior of publicly held BHCs² share repurchases versus their dividend distributions in the event of firm-specific or systemic stress, the

¹ Amendments to the Regulatory Capital, Capital Plan, and Stress Test Rules, 83 Fed. Reg. 18,160 (Apr. 25, 2018) (the "Proposal").

² Hirtle, Beverly, "Bank Holding Company Dividends and Repurchases during the Financial Crisis," FRBNY Staff Report, (April 2016), www.newyorkfed.org/medialibrary/media/research/staff_reports/sr666.pdf - "For these reasons, BHCs may have been more willing to reduce repurchases quickly as the financial crisis developed and uncertainty about its depth and severity intensified. The ability to reduce repurchases may have served as a cushion that allowed BHCs to reduce

assumption that an IHC would continue to pay dividends at planned levels may not be valid. Additionally, the elimination of the dividend add-on requirement should recognize the Federal Reserve's "strength of support assessment"(SOSA) processes that embed the monitoring and assessment of an FBO parent company and relevant home country factors, previously summarized in the SOSA documents, in other components of the FBO supervision program, including Regulation YY's requirement for FBOs to provide the results of and processes/assumptions associated with its capital planning efforts.

Transparency of the SCB calculation

Under the proposed SCB framework, the year-to-year variability of the Federal Reserve's own supervisory scenarios and the usage of supervisory models could lead to firms holding additional capital buffers to address the uncertain outcome represented by SCB and thus impede the effectiveness of a firm's capital planning processes. Currently, firms are expected to develop capital plans, in view of internally developed post-stress capital goals and targets, and estimate capital requirements under internally developed stress scenarios that are intended to account for severely adverse market conditions and the impact to regulatory capital given the firm's unique risk profile. Similarly, the Federal Reserve conducts its supervisor-run stress test using the supervisor-developed stress scenario and its own internal models and estimates the resulting capital impact for a given firm in view of that firm's planned capital distribution to inform the Federal Reserve's determination whether to object to that firm's capital plan.

To avoid the unintended consequences that would impede the effectiveness of a firm's capital planning processes, the Federal Reserve should consider the following:

- Release the supervisory stress scenarios earlier in the capital planning cycle and subject them to public notice and comment - this would serve to increase the transparency of the scenario design and allow for a longer time period to evaluate the implications of the new scenario and appropriately incorporate them into the capital planning process and evaluate the potential impact to the required SCB. A public notice and comment process would allow the Federal Reserve to consider and implement constructive feedback in its supervisory scenarios and update, as needed, instructions prior to the commencement of a given year's capital planning cycle; and
- Increase transparency of supervisory models – this would be wholly consistent with the Federal Reserve's objectives to increase transparency regarding its supervisory processes and allow a given firm sufficient information to fully evaluate and understand the determination of the SCB relative to its risk profile and exposures. This could be accomplished through the release of the material assumptions of the models and more fulsome disclosure of the model's rationale and design.

Eliminating the Qualitative Assessment

Based on the factors/criteria noted in its 2017 decision to eliminate the qualitative assessment imposed on certain firms and the risks to the stability of the US financial system posed by certain IHCs, including that of UBS, the Federal Reserve should eliminate the application of the qualitative assessment to those IHCs. Such an action is further warranted given the assessment of capital planning embedded within the Federal Reserve's proposed LFI rating framework and the availability of other supervisory remedies including enforcement actions.

In its amendments³ to the capital plan and stress test rules in February 2017, the Federal Reserve noted that the qualitative assessment of the capital plans of large and noncomplex firms instead would be conducted outside of CCAR through the supervisory review process. In arriving at that decision, it was noted that these firms present less systemic risk and have a more limited geographical scope. Further, the strength of each firm's capital planning process may be assessed through normal supervisory reviews supplemented with targeted, horizontal

payouts, at least for a time, without subjecting themselves to the negative market signal from reducing or eliminating their dividends."

³ Amendments to the Capital Plan, and Stress Test Rules; Regulations Y and YY, 82 Fed. Reg. 9308 (Feb 3, 2017)

reviews of aspects of capital planning and incorporate an assessment of these practices into regular, ongoing supervision. Additionally, the Federal Reserve noted that under the current capital plan rule, nothing in the original proposal would limit the authority of the Federal Reserve to issue a capital directive, such as a directive to reduce capital distributions, or take any other supervisory enforcement action, including an action to address unsafe or unsound practices or conditions or violations of law, such as an unsafe and unsound capital planning process.

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We appreciate the opportunity to provide our views and respectfully request that the Federal Reserve consider our suggestions on the Proposal and stand ready to participate in further dialogue and/or discussions with the Federal Reserve, as necessary. We feel strongly that the final guidance issued by the Federal Reserve should be tailored to fit the unique circumstances surrounding governance and control structures of IHCs operating in the US

Sincerely,

A handwritten signature in black ink, reading "Tom Naratil". The signature is fluid and cursive, with the first name "Tom" and last name "Naratil" clearly distinguishable.

Tom Naratil
President, Americas
CEO, UBS Americas Holdings LLC
Co-President, Global Wealth Management
Group Executive Board, UBS Group AG

Cc: IHC Board of Directors
Michael Crowl, Americas General Counsel
Jeff Samuel, Americas Head of Group Regulatory and Governance
Sasha Lewis, US Regulatory Affairs